

Private Wealth and the Growth of Family Offices

By **CHRISTOS ANAGNOSTOPOULOS** and **DAWN TAN**

Private wealth has grown at an astounding rate in recent years. There are now more millionaires and billionaires than at any other time in history. This, in turn, has given rise to a huge demand among wealthy individuals and their families for a better way to preserve their wealth for future generations.

As private wealth has increased globally, the world is simultaneously anticipating the biggest inter-generational wealth transfer. Over the next decade, wealth will change hands from one generation to the next across the globe at a rate never seen before.

The intersection of these two megatrends has precipitated a growth in activity among the high net-worth (HNW) and ultra-high net-worth (UHNW) community. And there is growing interest today in single-family offices (SFOs) in Singapore and worldwide.

How can UHNW individuals ensure proper management of their wealth to withstand internal and external challenges over time and create a lasting family legacy?

Global wealth landscape

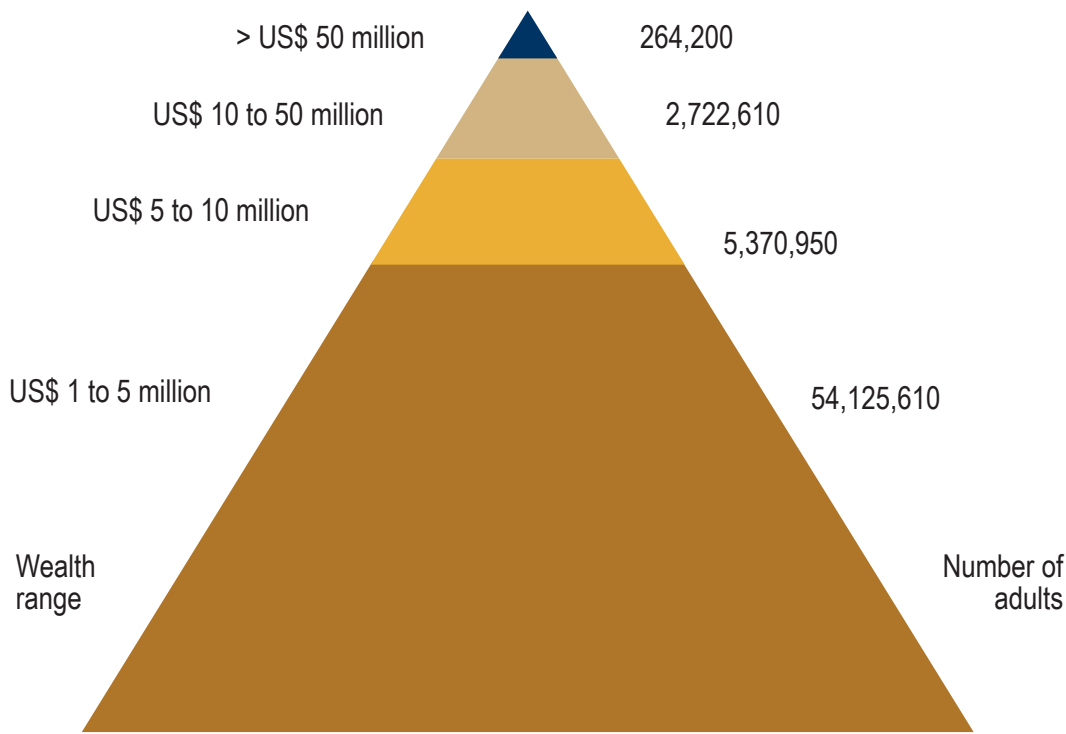
According to the 2022 *Credit Suisse Global Wealth*

Report, 2.7 million of the global population of nearly 8 billion have between US\$10 million (S\$13 million) and US\$50 million in assets, while 264,200 UHNW individuals had a net worth above this amount at the end of 2021 (see box, “The Top of the Pyramid, 2021”). The UHNW population is expected to grow to 385,000 by 2026, a 45 per cent increase from end-2021.





The Top of the Pyramid, 2021



Source: James Davies, Rodrigo Lluberias and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2022

Within the UHNW population, 84,490 adults had a wealth of more than US\$100 million at the end of 2021. Among them, 7,070 were worth more than US\$500 million. Although most of the UHNW individuals are domiciled in the US and China, the rest of Asia-Pacific represent approximately 23 per cent of the UHNW population (or 62,720 adults). Singapore, with 1,617 UHNW individuals, is now the world’s 11th richest country (US\$358,000 by average wealth per adult) and 20th by median wealth at US\$93,130 (see box, “Ultra-High Net-Worth Individuals in 2021, Top 20 Countries”).

Globally, US\$8.6 trillion is expected to change hands from one generation to the next in the coming decade. Based on estimates from the

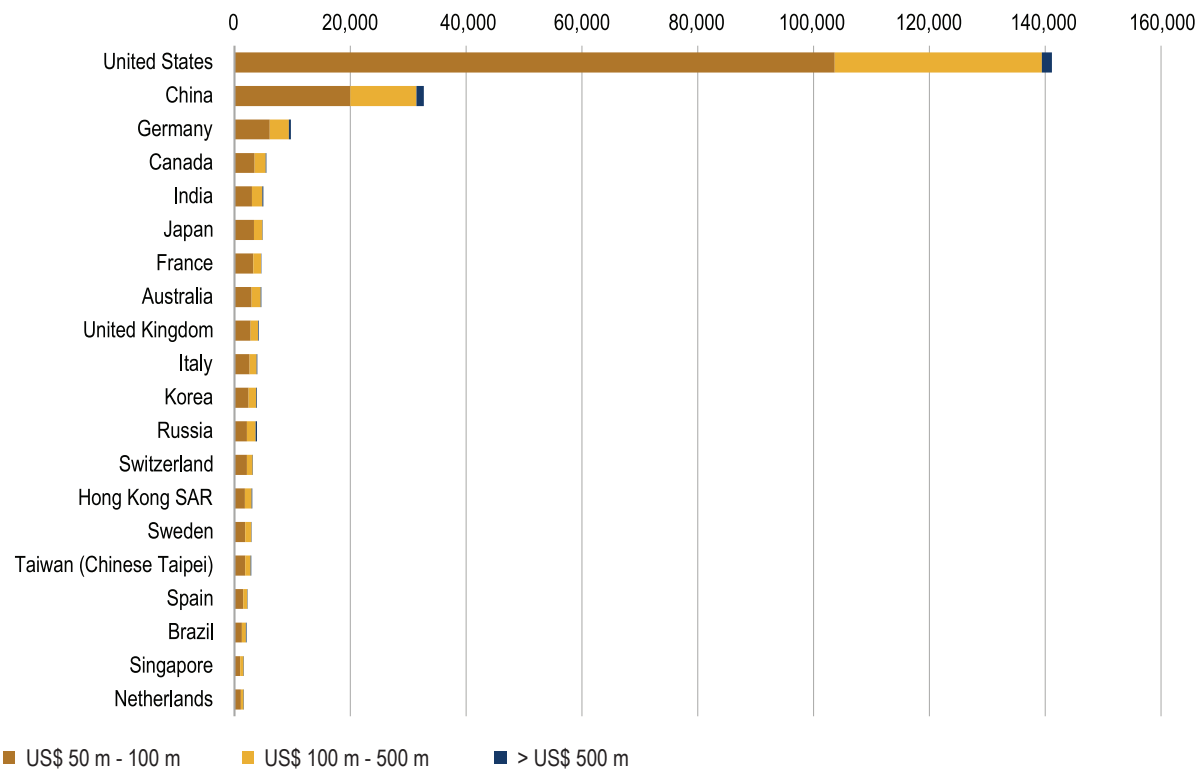
Wealth-X Family Wealth Transfer 2021 report, nearly US\$3 trillion of this inter-generational transfer will take place in the Asia Pacific.

The three-generations rule

Historical research suggests that most wealthy families are not prepared to carry out their wealth transfer smoothly and successfully, as 70 per cent of families have reported failure in their inter-generational wealth transfers.

This is a common phenomenon, and a myriad of expressions across different cultures exist to describe the unpreparedness of the next generations to take over and preserve the wealth created by their forefathers. In China, the expression “*Fu bu guo san dai* (富不过三代)” states

Ultra-High Net-Worth Individuals in 2021, Top 20 Countries



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2022

that wealth is not able to sustain beyond three generations.

Anecdotally, a staggering 70 per cent of family wealth is lost by the second generation, while 90 per cent of the wealth is lost by the third generation.

With the massive inter-generational wealth transfer expected to take place in the coming years, it is no surprise that families are beginning to prepare for it.

Rise of single-family offices

The rise of SFOs globally is estimated at 10,000, with at least half set up in the past 15 years. INSEAD research indicates that the number of

single-family offices globally jumped from 5,300 in 2017 to 7,300 in 2019, with US\$5.9 trillion in total wealth managed.

Wealthy families have been especially active in the region, with exponential growth since 2019. The Economic Development Board reports that as of 2021, there were 700 SFOs in Singapore. The number continues to rise as families across the region and beyond look to Singapore as an attractive base for their family office activities.

Over the years, Singapore has built a robust regulatory framework for families wishing to establish and operate SFOs. Hong Kong and Dubai are also enhancing their family office ecosystems.

Although wealth preservation beyond three generations has been elusive, some success has been seen among families in the more mature markets, such as the US and Europe, which have established wealth in the fourth, fifth or sixth generations. Families in Asia Pacific are therefore looking to learn and take necessary action.

As such, many families are increasingly aware of the importance of running a professional family office and ensuring good governance. Consequently, there is a wave of SFOs now engaging professional advisers to assist them in establishing a proper family office governance framework and creating a high-performing team to run the office.

Considerations and challenges

Every family has its own history, composition, culture and internal structure. Hence each SFO is as unique as the family it serves.

In the 2022 Credit Suisse *Single-Family Office Survey*, almost half of all respondents identified the involvement of family members and/or generational transition as their number one key business challenge. One in three stated that the next generation was not involved in the operations of the SFO at all. Other top challenges cited were risk management (46 per cent) and hiring and retaining good talent (36 per cent).

When it came to investment, more than half (54 per cent) highlighted investment strategy and asset allocation as their biggest challenge, while 47 per cent identified the difficulty of achieving annual return targets in the current market environment.

Increasingly, wealthy families are actively looking for professional advice on these matters:

- Assistance in creating a proper plan for hiring talent, understanding the different compensation models, and what to keep in-house versus what to outsource to external managers.
- Putting in place a proper decision-making mechanism to ensure proper safeguards and different interests among family members are looked after.
- Setting up robust guidelines for strategic asset allocation and investment to ensure sustainable returns while properly managing investment risks.

The lure of Singapore

Singapore has become one of the key hubs globally for UHNW families considering where to locate their family office. A robust legal system, stable political environment and clear regulatory and tax framework are strong fundamentals. Singapore has also developed an ecosystem of professional providers for family offices (lawyers, tax advisers, accounting firms, consultants, bank institutions, asset managers, etc.), providing access to talent and ease of conducting business. Other considerations include travel connectivity with other countries and access to regional markets, especially for private deals.

In the past year, three major regulatory enhancements have been legislated:

1. Section 13 of Singapore Income Tax, April 2022 Update enhanced the requirements under which the relevant S13 O and U incentive schemes apply.
2. Global Investors Programme accords Singapore Permanent Resident status to eligible global investors, under which the conditions for the family office route were updated in March 2023.

3. The 2023 Budget included new legislation on tax deductions for overseas donations for family offices operating under Section 13 of Singapore Income Tax.

The fact that overseas donations by family offices may soon qualify for tax benefits is a recognition that philanthropy is a key pillar of many SFOs. This is part of Singapore's drive to strengthen the UHNW ecosystem and boost the nation's ambition to become Asia's hub for philanthropy.

Growing philanthropy

Just as the megatrends of wealth creation and wealth transfer are fuelling the ascent of the SFO, they are also driving explosive growth in philanthropy globally.

In the US, charitable giving amounted to US\$485 billion in 2021, a 4 per cent increase over 2020. In the financial sector, banks and fund managers are assisting their UNHW clients in embarking on their philanthropy journey and how to make their philanthropy bigger, better and more sustainable.

The desire to do good is not new. The word "philanthropy" has its roots in the Greek words "philos" and "anthropos", meaning friend of humanity. In recent years, the practice of philanthropy is undergoing a seismic shift.

Unlike past generations, which typically focused on charitable giving, UHNWs are now infusing business principles and metrics to try to increase the impact of their giving. This has given rise to a plethora of philanthropic pathways, such as grantmaking, venture philanthropy, blended finance and impact investing.

Donors are now making grants to charities, supporting social enterprises and engaging in microfinance. As they adopt different tools to

different problems and contexts, social impact and sustainability are the two key considerations.

Through grantmaking, for instance, quality after-school care and tuition support for children from lower-income families can help to level the playing field. Venture philanthropy or impact investing can help scale up artificial intelligence technologies to deliver online customised learning to enhance classroom teaching, especially for children living in rural areas.

Family offices and the NextGen wealth-holders, in particular, are actively exploring new social impact tools. According to a 2019 Global Impact Investing Network survey, family offices reported that 57 per cent of their capital was deployed in impact strategies, compared with 24 per cent in bank capital, or just 2 per cent in pension funds.

With the pandemic exacerbating pre-existing inequalities, issues such as climate change, gender inequality, access to healthcare and poverty are now top-of-mind for a more socially conscious generation on the cusp of inheriting massive wealth.

As family office leaders expand their efforts to infuse purpose even more deeply into wealth management, philanthropy advisers have an important role to play. At the same time, there is also a rising need for nonprofits and charitable organisations to have better clarity of and articulate the impact of their work.

Wealth preservation and the desire to do good can go hand-in-hand. In this way, SFOs have great potential to be a key force for good. ■

The authors are from Credit Suisse AG (a UBS Group Company). Christos Anagnostopoulos is Head of Private Label Funds & Wealth Structuring Asia Pacific and Head of Family Office Advisory Singapore, and Dawn Tan is Head of Philanthropy Advisory Asia Pacific.